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DE RUEHBO #3824 2951704
ZNR UUUUU ZZH
P 211704Z OCT 08
FM AMEMBASSY BOGOTA
TO RUEHC/SECSTATE WASHDC PRIORITY 5122
INFO RUEHPE/AMEMBASSY LIMA 6668
RUEHLP/AMEMBASSY LA PAZ OCT CARACAS 1210
RUEHBR/AMEMBASSY BRASILIA 8445
RUEHZP/AMEMBASSY PANAMA 2533
RUEHQT/AMEMBASSY QUITO 7358

UNCLAS BOGOTA 003824

SIPDIS

FOR EEB/OIA MCULLINANE; EEB PASS TO OPIC WPEARCE AND
JHANSLEY

E.O. 12958: N/A
TAGS: EINV ENRG SENV ECON OPIC CO
SUBJECT: COLOMBIA: COMMENTS ON OPIC-SUPPORTED INVESTMENT
FUNDS IN THE REGION

REF: STATE 103210

¶1. (SBU) SUMMARY: In addition to pursuing increased exploration and production in its traditional hydrocarbons sector in order to maintain its net energy exporter status beyond 2015, Colombia is also increasing renewable energy production through new hydroelectric plants, aggressive biofuel blending mandates, and exploration of wind, solar and geothermal projects. Based on the preliminary information in reftel, the objectives of the OPIC-supported private equity investment fund to be managed by VGF Partners I appears compatible and complementary to Colombian government development programs in the areas of energy efficiency, sustainable resource management and emissions reductions. END SUMMARY.

¶2. (SBU) According to GOC figures, hydroelectric power currently accounts for 78 percent of Colombia's electricity generation (13,600 MW) with almost 3,000 MW of additional capacity under construction through six new plants scheduled for completion by 2018. In addition to supplying rising domestic demand with emissions-neutral, renewable hydroelectric power, Colombia aims to sell excess electricity to regional neighbors including Brazil. Colombia currently exports a small amount of electricity to Ecuador.

¶3. (SBU) The GOC has also implemented blending mandates of renewable biodiesel (5 percent) and ethanol (10 percent) into diesel and gasoline transportation fuel supplies, respectively, with the mandates scheduled to rise to 20 percent by 2015. Colombia currently has five privately owned ethanol plants and is scheduled to have six operational private biodiesel plants by mid-2009. The GOC has aggressively pursued biofuels as a means of reducing pollution in major metropolitan areas, generating rural employment alternatives to narcotics cultivation, and diversifying its transportation fuel supply. The GOC has also publicly pledged to develop the industry without destruction of native ecosystems through use of degraded or underutilized agricultural lands already in production.

¶4. (SBU) Complementing its emission reduction goals for diesel, the GOC has supported the extensive renovation of the Cartagena refinery by Swiss-owned Glencore and Colombian parastatal hydrocarbons company Ecopetrol to significantly improve the quality and reduce the pollutants in diesel produced by the plant. Current diesel supplies account for a large portion of metropolitan air pollution in Colombia.

¶5. (SBU) While it is difficult to predict the precise success of any activities that VGF Partners I may pursue in Colombia, the GOC's energy sector development policies are favorable

for the type of investment envisioned by the fund. While Colombia has received record foreign direct investment (FDI) over the last few years, most of the investment has flowed to the traditional hydrocarbons sector. Given tight GOC fiscal constraints and the current focus of FDI on hydrocarbons, new sources of capital are needed to develop further renewable energy projects in hydropower and biofuels, as well as pursue exploratory efforts in wind, solar and geothermal.

¶6. (SBU) Post has no derogatory information regarding the prospective fund managers.
BROWNFIELD